

**Chapter 10  
Procurement Management**

**10.1 Introduction to Procurement Management**

Procurement is referred to as a set of activities designed and performed to assure regular flows of materials and services, according to a plan. In this broader sense, procurement includes the purchasing activities performed to secure an agreement between the buyer and the supplier, and the services that are needed for executing the project.

Procurement applies to all kind of supply, including construction materials and equipment, subcontract and professional services. The procurement process has to be carried throughout the project life-cycle: the owner may need to procure design, consulting and project management services in the early stages, as well as the construction delivery entity; material resources and specialty subcontractors are procured during execution; testing and maintenance services are finally necessary to finalize the project commissioning.

**10.2 Procurement Methods and Strategies for Managing the Construction Supply**

The definition of a proper strategic framework for material procurement enables a collaborative environment and successful relationships between owners, contractors and subcontractors (i.e. win-win environment).

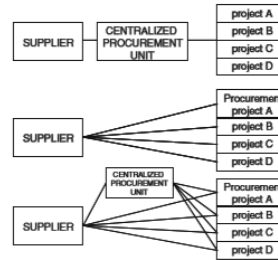
First, the strategy has to be set at the organization level, where the procurement function is designed and its management responsibilities are assigned. In some construction organizations, a centralized procurement division leads the task (Fig. 10.1).

In this case, the various project teams place requests to the central purchasing department. In turn, this would keep available stocks of commodities and standard items to timely supply the construction sites and to obtain lower costs for bulk purchasing. The adoption of computer-based systems, such as material requirement planning (MRP), helps in the task of supply and stock management.

In other companies, the task is decentralized (Fig. 10.1) and assigned to the project teams, which may appoint dedicated procurement managers. In this

A. De Marco, *Project Management for Facility Constructions*, 141  
DOI 10.1007/978-3-642-17092-8\_10, © Springer-Verlag Berlin Heidelberg 2011

**Fig. 10.1** Organizational models of the procurement unit. From top to bottom: centralized procurement, decentralized project-based procurement and mixed procurement approach



case-scenario, procurement is based on specific needs, takes advantage of local trade conditions, and reduces the cost of material stock and inventory management due to an effective just-in-time delivery of materials to the construction site.

To take advantage of both models, the procurement function may work based on a mixed approach (Fig. 10.1): bulk materials, commodities and standardized items are bought in large quantities from the low supplier by a centralized unit based on multiple-project material requirement estimates, while specific trade and pre-fabricated components are ordered based on specifications and schedule constraints by procurement managers as part of the project management team.

Procurement organizational units are responsible for searching and selecting vendors, for keeping relationships with suppliers and subcontractors, for expediting supplies and for managing and administering the procurement process. A centralized procurement division may better consolidate long term know-how, expertise and methods required for the task with special regard to market and vendors' knowledge, and may reduce the cost of material supplies.

Project procurement units are suitable for non-standardized projects, where a partnering relationship with the supplier is required to fabricate special items and a strong on-site continuous relationship has to be established with construction subcontractors.

Second, the key decision in defining the procurement strategy for a construction project is whether "to make" or "to buy" (i.e.: a general contractor may decide to perform the electrical works either by buying electrical materials and using own craftsmen or by subcontracting the complete job). A "buy" strategy usually benefits from subcontractor productive specialization, variations in labour cost, flexibility in resource usage and on-site capacity. The more the production process is assigned to subcontractors, the more the need to establish partnering

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